

CongressDailyAM

Thursday, September 29, 2005

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Tough Decisions For Tough Times

Quite apart from the lapses revealed in the nation's disaster relief system, Hurricanes Katrina and Rita have stripped the rickety façade from the grim face of federal fiscal policy -- a policy that has increasingly employed budget-busting emergency spending bills coupled with ideologically driven tax cuts that together have propelled the national debt to astronomical levels.

The debt owed by American taxpayers is likely to reach \$8 billion when the fiscal year ends at midnight Friday. Of that sum, about 22 percent is owed to foreign creditors such as China, another 40 percent is owed by one arm of government to another and the rest is in private hands.

Since FY2000, the debt has grown by \$2.3 trillion. To put it in terms that even economic naifs like this writer can comprehend, that's a growth rate of \$75 million an hour, according to the budget-conscious Concord Coalition. The group pointed out that the entire national debt at the birth of the Republic was \$75 million, presumably left over from the cost of waging the War for Independence.

Much of the debt has been accumulated in the last 25 years. It has increased eight-fold since 1981 -- the first year of the Reagan presidency -- when it exceeded \$1 trillion for the first time. Indeed, that was a period of great hand wringing among fiscal conservatives who lamented the profligacy of the federal government.

But the supply-side economic theory of that era, which held that slashing taxes would generate sufficient economic growth to cover the tax cuts and still provide a decent level of federal spending, became the mantra of the day. When Reagan left office, the debt was \$2.6 trillion.

"The net interest on publicly held debt, foreign and domestic, will be about \$182 billion in [FY05], and probably will be \$200 billion next year," said Robert Bixby, executive director of the Concord Coalition. "It is a rapidly growing item in the federal budget."

Overall, he added, the entire net interest on the total debt, including intra-government payments to federal trust funds that invest in Treasury securities, will be \$352 billion this year. That's just \$71 billion less than the entire level of spending for non-defense discretionary programs.

While financial markets barely take account of the government-to-government interest payments, he said, "We are still building up a whole lot of IOUs that future taxpayers are on the hook for and will have to meet when the time comes to start paying the trust fund obligations."

Senate **Budget Chairman Gregg** remarked earlier this month that the administration is preparing to ask for another \$50 billion -- on top of the \$62 billion already approved with as much as \$40 billion to \$65 billion still to come -- in emergency disaster aid for Katrina. And there is the further likelihood that the Defense Department will be asking for another \$50 billion in borrowed financing for the Iraq war in FY06.

And that's likely to be just the beginning. Beleaguered residents of the Gulf Coast are still keeping an eye out for other hurricanes, a lingering drought continues ruining crops in the Midwest and Southwest, and the forest fire season is upon us.

At the same time, congressional leaders appear determined to push forward at some point with repeal of the estate tax, which would mostly benefit a comparative handful of heirs to large fortunes, as well as make permanent President Bush's earlier tax cuts at a further cost to the Treasury of hundreds of billions of dollars in the years immediately beyond 2010 -- just when the buildup of immense fiscal pressure on the government begins as Baby Boomers begin retiring and imposing mounting burdens on federal healthcare and pension programs.

There is little debate about the need to relieve the human suffering and to restore the economies of disaster-torn areas.

Even if such assistance comes at the expense of future taxpayers, who will have to pony up the money to service or begin retiring the debt, the impulse of the vast majority of Americans is to do what must be done and forget about the cost.

But what about a debate, or maybe a serious discussion, even some passing notice, about the wisdom of running up a soaring debt while at the same time choking the flow of revenue into the public purse to help cover that debt? Or perhaps some consideration of the mounting number of congressional earmarks, referred to as pork-barrel projects, in spending bills?

Some House and Senate members have expressed a willingness to cut more deeply into both mandatory and discretionary spending, such as Medicaid, food stamps, environmental protection and federal housing programs. Others on Capitol Hill are seemingly eager to find a graceful exit from Iraq, which would ease the heavy costs of the war there. But for every lawmaker who seems willing to make these difficult political choices, there are many others ganging up to fight the cuts and some who want to spend even more.

The federal faucet continues to leak, at a steady rate, and lawmakers seem in no hurry to fix it. *By David Hess*